



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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November 23, 2009

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

Dear Dr. Horton:

Final Report—California Department of Public Health, 2007-08 Evaluation of Special Funds

The Department of Finance, Office of State Audits and Evaluations, has completed its evaluation of special funds of the California Department of Public Health (DPH) for fiscal year 2007-08. This evaluation was performed in accordance with Interagency Agreement 06-55416.

The DPH's response to the reported observations and our evaluation of the response are incorporated into this final report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the DPH's staff during this evaluation. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Chikako Takagi-Galamba, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Jose Ortiz, Acting Chief Deputy Director of Operations, California Department of Public Health
Mr. Alan Lum, Acting Deputy Director of Administration, California Department of Public Health
Ms. Karen Petruzzi, Audit Coordinator, California Department of Public Health

A SPECIAL REPORT

California Department of Public Health Evaluation of Special Funds Fiscal Year 2007-08

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

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TABLE OF CONTENTS

Executive Summary	iv
Background, Scope, and Methodology	1
Results of the Evaluation of Special Funds	5
Attachment A—Key Steps of the 18 Point Plan	11
Attachment B—Fiscal Health Report Card	12
Attachment C—Cash Collection Activities	13
Department Response	14
Evaluation of Response	21

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations (Finance), completed an evaluation of special funds administered by the California Department of Public Health (DPH) in accordance with Interagency Agreement 06-55416. The objectives of the evaluation included the following:

- Evaluate the new functional control structure for the budgeting, accounting, and reporting areas and determine if the new structure allows the DPH to achieve increased accountability and transparency in administering public health program funding.
- Evaluate the DPH's cost allocation methodology to determine if the indirect cost pools and the allocation of these indirect costs to the programs are supported by an objective cost allocation methodology.

Summary of Results:

Evaluation of Control Functional Structure

The DPH has made some progress toward achieving accountability and transparency in managing public health program funds. However, as designed and implemented, the functional control structure for budgeting, accounting, and reporting does not enable the DPH to achieve its goal. Specifically,

- The current design of the Fiscal Health Report (Report Card) does not allow the DPH to effectively measure the overall fiscal health of the centers because functions critical to fiscal health are not included on the Report Card. Also, the Expenditure Forecast Report (EFR) and the Budget Utilization and Development System (BUDS) documents are not fully utilized in monitoring budgets and expenditures because the current mechanism to complete the EFR relies heavily on manual processes.
- The contract budget monitoring and management responsibilities are not performed adequately. Program managers did not follow their contract management responsibilities; service contracts were backdated and split; and there is no centralized contract tracking system that contains all needed elements and current contract information. Also, there is a lack of understanding by the program managers as to how indirect costs are budgeted and allocated.

Evaluation of Cost Allocation Methodology

The cost allocation methodology does not result in an objective allocation of indirect costs due to the lack of consistency and reliability in the collection and application of the cost allocation.

Further, Information Technology (IT) costs are not fully split from the Department of Health Care Services (DHCS). Consequently, the DPH paid costs associated with the DHCS, resulting in overcharging programs and reducing the remaining resources available for program purposes.

The issues described above, if unresolved, could negatively affect the DPH's ability to proactively monitor and manage its resources and to accurately report the operational results for decision making. The DPH management should review each observation and develop corrective actions to resolve these issues.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

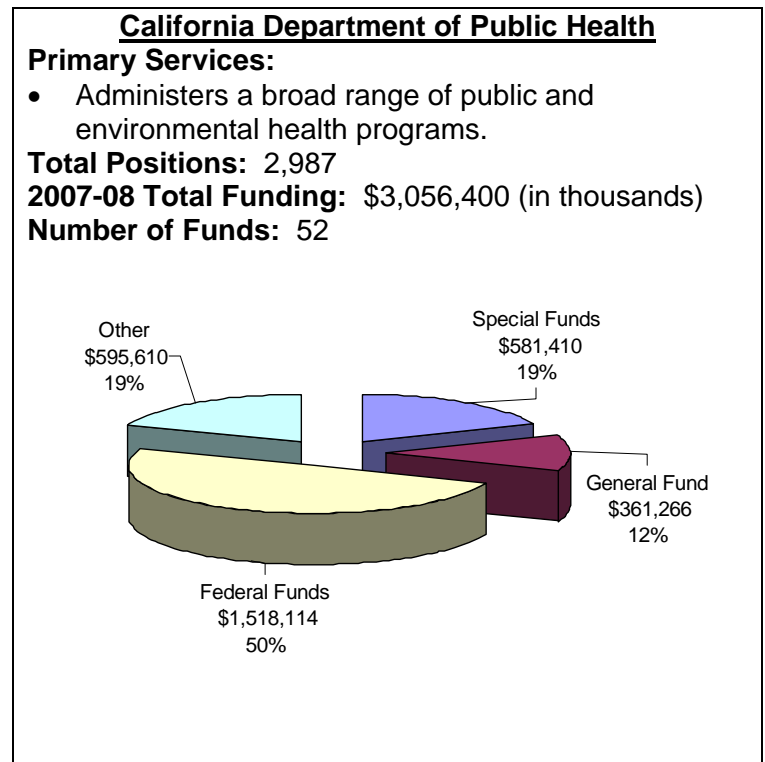
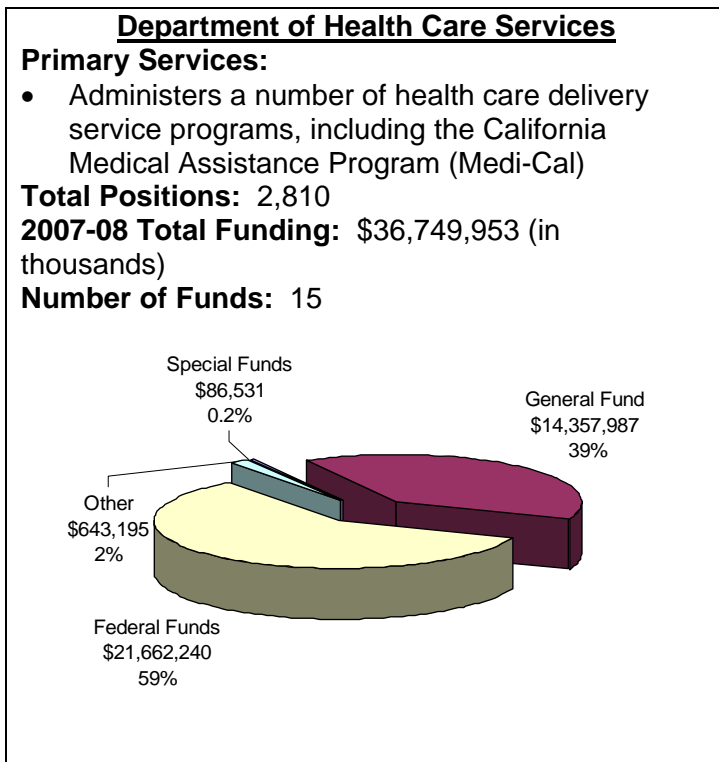
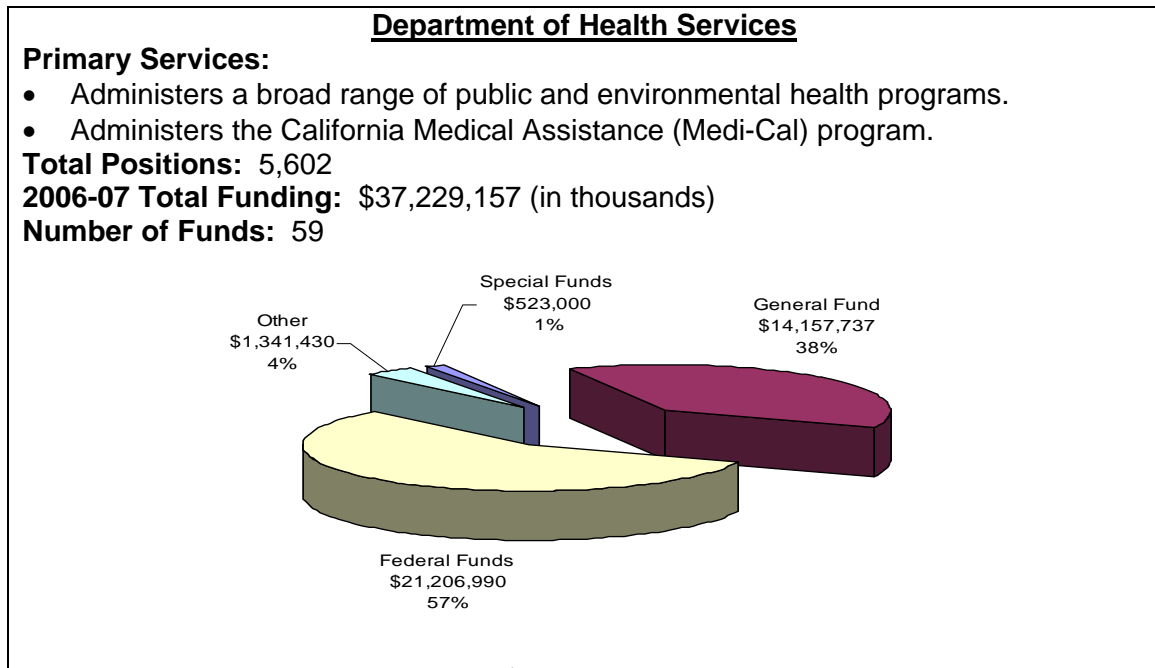
Pursuant to Senate Bill 162 (Chapter 241, Statutes of 2006), effective July 1, 2007 the former Department of Health Services (DHS) was split into 2 new departments: the California Department of Public Health (DPH) and the Department of Health Care Services (DHCS). The intent of the split was to increase the accountability of resources and expenditures and improve the effectiveness of the public health programs. A wide range of public and environmental health programs and responsibilities was transferred to the DPH along with over 50 special funds.

After the split, the new DPH has been reorganized into a flatter structure with five programmatic centers and two offices¹. Each center and office emphasizes a distinct aspect of public health. Many of the DPH's programs are funded by special revenue funds. These funds are used specifically to account for revenue sources restricted to expenditures for particular purposes. The DPH's special fund revenues include user fees, license fees, and other fees mandated for providing specific public health services. Special fund revenues now comprise approximately 19 percent (\$581 million) of the DPH's budgets. See Figure 1 on page 2 for further details on funding sources before and after the department split.

A three-year interagency agreement was entered into with the Department of Finance, Office of State Audits and Evaluations (Finance), to perform special fund evaluations for fiscal years 2005-06, 2006-07, and 2007-08. The year one and year two evaluations for 2005-06 and 2006-07 were completed. Cost allocation variances related to information technology infrastructure were reported during the year one evaluation. During 2007-08 and 2008-09, the DPH, in its first two years of operation, has taken steps toward achieving the objectives of the split. Therefore, the year three evaluation was conducted to: (1) evaluate the new functional control structure for the budgeting, accounting, and reporting areas; and (2) evaluate the cost allocation methodology.

¹ The DPH is organized into five programmatic centers. Each center emphasizes a distinct aspect of public health: (1) preventing chronic disease, injury, and environmental and occupational exposures; (2) combating infectious diseases; (3) regulating the environment; (4) promoting family health; and (5) providing quality services through licensed providers. These centers are intended to provide high-level visibility on important public health issues. The two other public health programmatic functions include: Emergency Preparedness Office and Health Information and Strategic Planning. The managers of the five new program centers and two offices directly report to the Chief Deputy Director of Policy and Programs.

Figure 1: Funding Sources Before and After the Department Split



Note: "Other" includes reimbursements and bond funds.

Source: 2008-09 and 2009-2010 Governor's Budgets for 2006-07 and 2007-08 information

SCOPE

Finance performed the last year of the three-year evaluation of the DPH's special funds. The objectives of this evaluation include the following:

- Evaluate the new functional control structure for the budgeting, accounting, and reporting areas and determine if the new structure allows the DPH to achieve increased accountability and transparency in administering resources for public health programs.
- Evaluate the DPH's cost allocation methodology to determine if the indirect cost pools and the allocation of these indirect costs to the programs are supported by an objective cost allocation methodology.

The evaluation excludes or does not address the following:

- A workload study of special funds.
- An efficiency and effectiveness assessment of operations.
- A comprehensive review of the performance measurement system.
- A review of the information systems used in administering special fund programs.
- An evaluation of the special funds' compliance with applicable laws and regulations.
- A comprehensive review of the general administrative controls.
- A review of other funds.

In general, the evaluation used transactions and processes completed or implemented during 2007-08. The evaluation period was expanded where additional procedures were necessary.

METHODOLOGY

To evaluate the DPH's new functional control structure, the following procedures were performed:

- Obtained an understanding of the new functional control structure for budgeting, accounting, and reporting through interviews of the managers and key staff and review of relevant documents.
- Reviewed the design of tools implemented to develop a more accountable and transparent structure for selected items.
- Conducted testing of revenue and expenditure accounting and reporting processes on a sample basis.
- Reviewed the adequacy of contract management through a sample of executed contracts.

To evaluate the cost allocation methodology, the following procedures were performed:

- Obtained an understanding of the cost allocation processes through interviews of the DPH's key program and accounting staff, review of relevant documents, and walkthroughs of allocation processes.
- Using the DPH accounting records and the cost allocation plan, identified all types of indirect costs and their basis.
- Based on the understanding obtained, performed a risk assessment and selected a sample of indirect cost pools to be reviewed.
- Analyzed the adequacy of the methods of collection and application of the allocation basis.

- On a sample basis, performed testing to determine whether these indirect costs were appropriately allocated to programs.

Fieldwork was conducted from December 2008 through June 2009. The detailed results of the evaluation are discussed in the Results of the Evaluation of Special Funds section of this report.

RESULTS OF THE EVALUATION OF SPECIAL FUNDS

Pursuant to an interagency agreement the Department of Finance, Office of State Audits and Evaluations (Finance), performed an evaluation of the California Department of Public Health's (DPH) special funds for fiscal year 2007-08. The results are discussed below.

Evaluation of New Functional Control Structure

During fiscal years 2007-08 and 2008-09, in its first 2 years of operation, the DPH has made some progress toward achieving increased accountability and transparency in managing public health program funding.

OBSERVATION 1: The DPH Has Made Progress Toward Achieving Organizational Goals

The DPH has developed work plans and tools to achieve its objectives.

- The 2008-2010 Strategic Plan includes specific measurable goals and objectives in the areas of processing requests for personnel actions, invoices, contracts, and purchase orders.
- The 18 Point Plan captures specific actions in developing a more accountable and transparent structure. See Attachment A of this report which documents the key steps of the 18 Point Plan.
- The Fiscal Health Report Card (Report Card) includes nine items designed to measure the fiscal health of the centers and divisions. See Attachment B of this report which documents the Report Card.
- The DPH has developed tools for individual programs to monitor their budgets and expenditures. The budget monitoring tool is referred to as the Budget Utilization and Development System (BUDS) and is generated by the Budget Unit; the expenditure tool is referred to as the Expenditure Forecast Report (EFR) and is generated by the Accounting Unit. These tools are used concurrently to assist the respective programs in monitoring the budget for multiple funds and forecasting future expenditures.

The DPH should continue using, improving, and adjusting tool designs as described in the following observations:

OBSERVATION 2: The DPH Fiscal Health Report Card Needs Improvement

Functions that are critical to the fiscal health of the centers are not included on the Report Card, and as a result, the Report Card is not effective in measuring the overall fiscal health of the centers.

The Administration Division does not issue a grade for: (1) the center's performance on review, tracking, and correction of expenditures and (2) the center's review of state and local assistance contract budgets. The centers should be rated for these activities because they are essential for program monitoring and management. Further, the Report Card does not include any evaluation of revenue tracking or reconciliations.

There are 17 programs collecting cash outside of the centralized collection process performed in Accounting (See Attachment C of this report for cash collection activities). Therefore, proper oversight and consistency must be in place to ensure all collections are accounted for. Revenue reconciliations between program records and accounting records are not consistently performed. Of the 74 transactions tested, 15 transactions (20 percent) could not be traced to the California State Accounting and Reporting System (CALSTARS). Consequently, revenue reports that the DPH managers rely on to make decisions may be inaccurate and incomplete. Without reliable financial records, control and accountability is compromised.

The DPH should update the Report Card to evaluate all items, so the overall fiscal health of the centers is effectively measured. The DPH should also utilize the Report Card as a tool to establish a standard process to monitor revenue tracking and reconciliations.

OBSERVATION 3: The EFR and BUDS Are Not Fully Utilized or Coordinated

The DPH has over 50 different funding sources and over 80 different programs. As a result, the funding sources overlap multiple programs, making the budget monitoring process complex. The programs use the BUDS and EFR as tools to monitor their budgets and expenditures.

However, the BUDS and EFR are not fully utilized due to presentational and functionality issues. Specifically, the BUDS can be generated in multiple formats (fund or organizational), and programs are having difficulties tracing their specific program budgets to the BUDS. With regards to the EFR, program managers have stated that some of the built-in formulas that forecast future expenditures do not adequately recognize one-time charges, or fiscal seasonality issues. To resolve these presentational and functionality issues, programs have created internal expenditure logs that can be manipulated and compiled to integrate with the BUDS and EFR. Each program is handling this issue differently and a consistent process for monitoring, reconciling and utilizing the BUDS and EFR has not been implemented.

The DPH should resolve the presentational and functionality issues of the EFR and BUDS. Also, work with programs to adjust the EFR forecasting formula to be more relevant to their operations.

Further, the evaluation observed the following operational conditions where the DPH management is not adequately monitoring and managing its resources.

OBSERVATION 4: Contract Management Needs Improvement

The contract monitoring and management responsibilities need improvements. Specifically:

- The program managers did not follow required contracting procedures. In one instance, a service contract was created subsequent to the service being performed, and was split into several service orders to avoid state contract requirements.
- Invoices are not adequately reviewed to ensure accuracy or appropriateness. For one significant contract reviewed, invoices were approved for payment without ensuring that the services were provided.
- The DPH has three systems tracking various components of its contracts: (1) CALSTARS, (2) the contract tracking system used by the Contract Management Unit, and (3) the contract tracking logs used by programs. None of these systems have all of the elements needed, nor are they reconciled or integrated with each other. This makes it difficult for DPH managers to access current contract status.

Conditions observed above adversely impact the validity and accuracy of the respective financial statements, expose the DPH to the risk of over expending contract budgets, and hinder the DPH's ability to fully utilize its resources.

The DPH should establish standardized procedures for the contract execution and invoice review processes. The DPH should integrate all contract information into one contract management system that can provide current contract information.

OBSERVATION 5: Lack of Understanding of Allocated Costs Makes it Difficult to Manage Resources

Programs do not have an understanding of the below-the-line (allocated) costs. Expenditures are classified into two groups: above-the-line (direct) and below-the-line (allocated) costs. Below-the-line costs are presented below the direct costs on BUDS and EFR. The direct costs are the normal operating expenses including: salaries, benefits, supplies, postage, etc.

The allocated costs represent total administrative overhead and indirect costs allocated to the programs and their respective funds.

Program managers stated they do not understand how the allocated costs are calculated. Supporting documentation, or methodology for calculating the allocated costs is not provided to programs, and therefore, programs are unable to reconcile their allocated costs. Additionally, program management has stated that large fluctuations exist in the monthly allocations, making it difficult to manage their budgets. Further, it is common for their budgeted allocation to be adjusted throughout the year. Consequently, the budget for direct costs must be adjusted to compensate for the increased allocated costs.

The DPH should improve communication between programs and Administration in order to increase understanding of the cost allocation process.

Evaluation of Cost Allocation Methodology

We evaluated the DPH's cost allocation methodology to determine if the allocation of indirect costs to programs is supported by an objective cost allocation methodology.

The table below summarizes the types of indirect costs and their allocation basis.

Table 1: Summary of Indirect Costs and Allocation Basis

Type of Allocated Costs	Basis	Amount ^(d)
Workers Compensation	Total personal services dollars	\$ 459,000
Communications	Facilities Operations Drill (Staff count) ^(a)	\$ 1,305,000
Facilities	Rent schedule & Staff count	\$ 42,505,000
Information Technology (IT) Application Support ^(b)	Timesheet statistics	\$ 10,546,000
IT Overhead and Infrastructure ^(c)	Staff count	\$ 8,105,000
Program Overhead	Personal services dollars	\$ 28,516,000
Department Overhead	Personal services dollars	\$ 22,307,000
Legal Costs	Timesheet statistics	\$ 4,750,000
Total		\$ 118,493,000

Note:

(a) Programs provide the Accounting Unit the number of employees, contractors, and temporary help by index and program cost account (PCA) codes at the beginning of each fiscal year. This information is used to allocate costs throughout the year and is modified if there are material changes

(b) IT application support costs are allocated based on data center bills in addition to the timesheet statistics.

(c) IT costs are allocated based on staff count less IT staff.

(d) Dollars rounded to the nearest thousand.

Source: 2007-08 DPH Accounting Records and DPH Cost Allocation Plan

Based on a risk assessment of allocated costs, the IT and facilities cost allocations were selected for review. The following conditions were identified:

OBSERVATION 6: Cost Allocation Process Can Be Improved

The cost allocation method does not result in an objective allocation of indirect costs². Specifically:

- The staff count request sent to the centers lacks direction on how to complete the count and, as a result, the centers are not completing the staff count consistently. The two centers that responded to our inquiry used different source documents to complete the staff count: (1) the internal employee list and (2) the organizational chart. Further, the staff count is not reviewed for accuracy. Consequently, the staff count cannot be relied on.
- Due to the different source documents used, the centers may also be using different bases for determining the staff count. The internal employee list would include only filled positions, while the organizational chart would include all authorized positions. It is reasonable to use authorized positions for the Facilities allocation; however, other allocation types, such as IT, should only be allocated for the filled positions that are using the services provided. Therefore, the use of the staff count for multiple types of allocated costs may not result in the fair allocation of costs.
- Based on a review of eight Index and PCA combinations, there were variances between the staff count figures and the State Controller's Office payroll records, ranging from 1 to 28 staff.
- There is no written policy on when or how the rent schedule is to be updated for square foot usage by center. Though the rent schedule is updated monthly for lease information, a regular review of square foot usage is not performed.

The DPH should establish and maintain reliable, accurate, and consistent information to be used as the allocation basis.

OBSERVATION 7: IT Costs Are Not Fully Split from the Department of Health Care Services

The DPH and the Department of Health Care Services (DHCS) continue to share an IT system and are using the same network. Shared project codes within the system result in costs that cannot be assigned to a specific department; therefore, these costs are being split equally between the two departments.

The DPH discovered two instances where it paid expenditures related to the DHCS. There is still an outstanding abatement receivable for

² Due to the lack of available supporting documentation, we were unable to evaluate the 2007-08 cost allocation; therefore, testing was performed on the 2008-09 allocation.

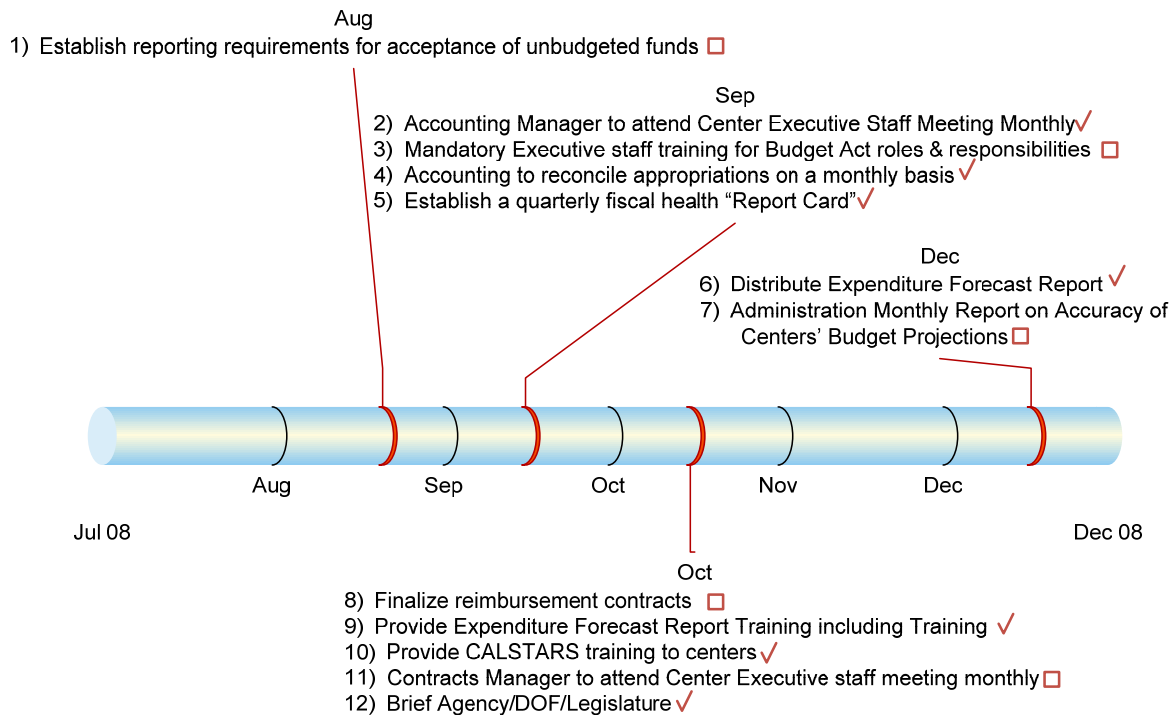
\$855,000 for expenditures incurred in 2007-08. Those expenditures were allocated to the DPH programs through the IT cost allocation process, resulting in overcharging programs for additional costs and reducing the remaining resources available for program services. There may be more instances where the DPH is paying costs that belong to DHCS.

The DPH IT system should be fully split from the DHCS. Until the split can be achieved, the DPH needs to improve the method of identifying the correct IT costs that should be charged to each department.

ATTACHMENT A

KEY STEPS OF THE 18 POINT PLAN

This section of the report documents the scheduled key completion dates and implementation steps of the 18 Point Plan.



Ongoing Efforts

- 13) Provide budgets to Centers 45 days after enactment of the Budget Act ☒
- 14) Meet with each Center to review the budget within 30 days of receiving the final Budget Act ☐
- 15) Within two weeks of #14 review Center budgets and remove excess expenditure authority ☒
- 16) Quarterly, Centers to report changes to the budget or requests for increase/decrease to expenditure authority to Director ☒
- 17) Provide ongoing training on budget and related drills ☒
- 18) Budget Manager to attend Executive staff meetings monthly ☒

✓ = Completed
☐ = In progress

ATTACHMENT B

FISCAL HEALTH REPORT CARD

This section of the report documents the fiscal health report card items and scoring criteria.

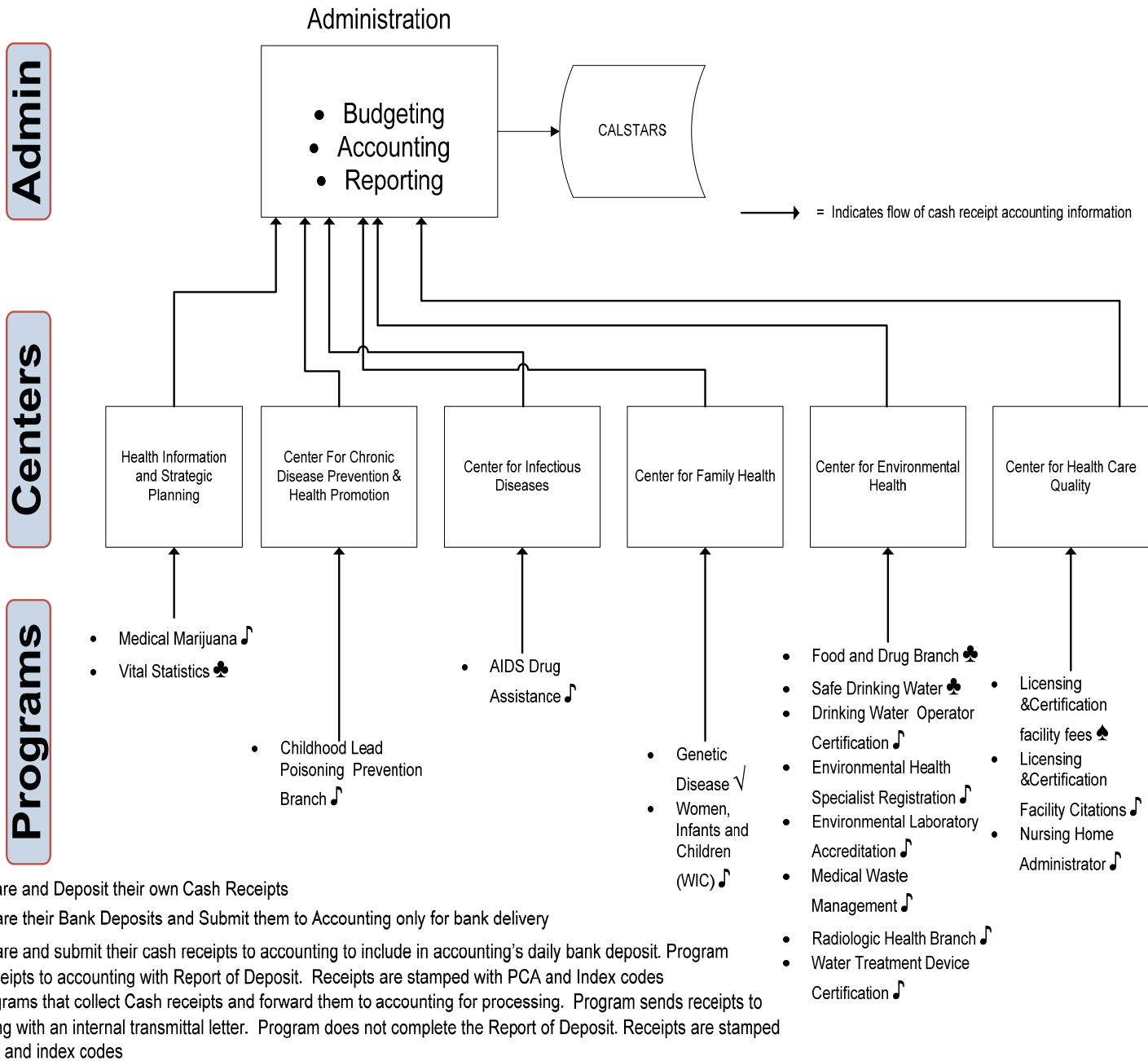
Item	Item Description	Scoring Criteria
1	Reimbursement collections are meeting reimbursement projections. Contracts signed. Current expenditures are not exceeding collections and contract limits.	Green—80 percent to 100 percent Yellow—60 percent to 79 percent Red—Below 60 percent
2	Timely completion of monthly EFR drills for each fund source by Branch is compared against the programs' monthly expenditure plans.	Green—80 percent to 100 percent Yellow—60 percent to 79 percent Red—Below 60 percent
3	Program appropriately encumbers and expends appropriation within budget authority and addresses any over/under expenditure.	Green—No appropriation problems Yellow—Over appropriation budget (first notification) Red—Over appropriation budget (second notification)
4	CORE reports are reviewed monthly to track expenditures for each fund source. Corrections are submitted to Accounting within two months after month end closing.	The Administration Division will not issue a grade for this. It will be up to the Centers and divisions to complete.
5	Balances in all funds are adequate to ensure timely payment of invoices.	Green—No fund balance problems Yellow—Cash not sufficient (first notification) Red—Cash not sufficient (second notification)
6	Budget Act Section Letter notifications are done properly and on time.	Green—80 percent to 100 percent Yellow—60 percent to 79 percent Red—Below 60 percent
7	Meeting between fiscal teams and Centers occur.	Green—Regular meetings or communications have occurred. Yellow—Limited meetings or communications have occurred. Red—No meetings or communications have occurred.
8	Vacancies are proactively tracked and filled by month 4 in order to avoid GC 12439.	Green—7 percent or less Yellow—8 percent to 12 percent Red—Above 12 percent
9	Support and Local Assistance contract budgets are reviewed quarterly to ensure timely encumbrance and expenditure of budget authority.	The Administration Division will not issue a grade for this. It will be up to the Centers and divisions to complete.

The Administration does not issue a grade for Items 4 and 9.

ATTACHMENT C

CASH COLLECTION ACTIVITIES

This section of the report documents the cash collection activities.



DEPARTMENT RESPONSE



MARK B HORTON, MD, MSPH
Director

State of California—Health and Human Services Agency
California Department of Public Health



ARNOLD SCHWARZENEGGER
Governor

NOV 09 2009

David Botelho, Chief
Department of Finance
Office of Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

The California Department of Public Health (CDPH) has prepared its response to the California Department of Finance draft report entitled, "Draft Report: California Department of Public Health, Evaluation of Special Funds Fiscal Year 2007-08." The CDPH appreciates the opportunity to provide the Department of Finance with responses to the draft report.

Please contact Alan Lum, Deputy Director, Acting Deputy Director of the Administration Division, at (916) 445-0649, should you have any questions.

Sincerely,

Original signed by:

Mark B Horton, MD, MSPH
Director

Enclosure

California Department of Public Health's Response to the
Department of Finance Draft Report Entitled-
California Department of Public Health, 2007-08 Evaluation of Special Funds
September 2009
094265021

Observation 1: The DPH Has Made Progress Toward Achieving Organizational Goals

DOF Recommendation 1

The DPH should continue using, improving, and adjusting tool designs as described in the following observations:

Observation 2: The DPH Fiscal Health Report Card Needs Improvement

DOF Recommendation 2

The DPH should update the Report Card to evaluate all items, so the overall fiscal health of the centers is effectively measured. The DPH should also utilize the Report Card as a tool to establish a standard process to monitor revenue tracking and reconciliations.

CDPH Response 2

CDPH partially agrees with the recommendation. We updated the FY 2009/10 Report Card (Table 1) to reflect the specific activities for which centers/offices are graded. The update includes one of the DOF recommendations: "evaluation of the revenue tracking or reconciliations". Update of the Report Card resulted in deletion of three items since the Administration Division does not issue a grade for the activities and the responsibility for completion is with the centers/offices:

- CORE reports reviewed monthly, by fund source, to track expenditures. Corrections submitted to Accounting within two months after month end closing.
- Support and Local Assistance contract budgets reviewed quarterly to ensure timely encumbrance and expenditure of budget authority.
- Balances in all funds are adequate to ensure timely payment of invoices.

The CDPH acknowledges the DOF recommendations relating to program monitoring and management, but quantifiable means to determine a grade on "(1) the center's performance on review, tracking, and correction of expenditures and (2) the center's review of state and local assistance contract budgets" are not available. A preventative measure to over-expending is the on-going Budget Section and Accounting Section meetings. Not only are issues raised and addressed, but also everyone is aware of the

status of the expenditures and budget authority. A means to address an authority issue is the Section Letter process, which we grade based on timely submittal.

Observation 3: The EFR and BUDS Are Not Fully Utilized or Coordinated

DOF Recommendation 3

The DPH should resolve the presentational and functionality issues of the EFR and BUDS. Also, work with programs to adjust the EFR forecasting formula to be more relevant to their operations.

CDPH Response 3

CDPH disagrees with this recommendation. BUDS (Budget Utilization and Development System) is a departmental tool that has been used for over 20 years to develop the annual Governor's Budget and not a budget monitoring tool. Information from BUDS is loaded into CALSTARS for the annual Budget Act and for the Governor's Budget. This is done at the Branch level by line item, fund source, and program/element. Once the budget has been loaded into CALSTARS, programs are directed to use CALSTARS/ EFR as the mechanism to monitor the expenditures against their respective budgets.

CDPH disagrees with the recommendation that the EFR forecasting formula needs to be adjusted be more relevant to the programs operations. Because of the complexity of program's funding, it would not be possible to provide a custom formula for each program. The Accounting Section reviews the formulas each month and will adjust formulas based on known expenditure levels for the different line items at that point in time. The programs will use the adjustment feature in the EFR each month to make adjustments to certain line items for one time charges or fiscal seasonality issues. The Accounting Section offers EFR group training each year in October and November and January to all staff responsible for their EFR. Individual training is also available upon request. There is an EFR Handbook posted on CDPH Intranet site to assist programs with the EFR process. The Accounting Section reviews the EFR Adjustments Reports submitted by programs each EFR process for reasonableness and accuracy. Programs will be contacted by the Accounting Section if there are questions about their Adjustment Report.

Observation 4: Contract Management Needs Improvement

DOF Recommendation 4

The DPH should establish standardized procedures for the contract execution and invoice review processes. The DPH should integrate all contract information into one contract management system that can provide current contract information.

CDPH Response 4

CDPH agrees with the recommendation. We are currently in the process of developing and implementing a comprehensive and department-wide contract tracking system, which will replace the out-dated and limited Contract Management Unit database and provide all programs with status and overview of all their contracting activity. The new contract tracking system is anticipated to be fully implemented by June 2010. This new system will not contain payment information since that may be implemented with FISCAL.

CDPH already has procedures in place for the review and submittal of invoices to the Accounting Section on the Intranet in a document called Invoice Processing 101A. When this document was created, training was provided to Program staff. The Invoice Processing 101A document will be revised by June 30, 2010 to give CDPH Programs more specific direction for the invoice review process. Once the procedures are revised, we will notify the Programs of the updated procedures and provide additional training to Program staff.

Observation 5: Lack of Understanding of Allocated Costs Makes it Difficult to Manage Resources

DOF Recommendation 5

The DPH should improve communication between programs and Administration in order to increase understanding of the cost allocation process.

CDPH Response 5

CDPH agrees with this recommendation. We initiated an Administration User Workgroup and most of the Programs participate in this effort. The Group began in the fall of 2008 and meets monthly. Participants from our Richmond Lab Campus and Sacramento headquarters are included in this group. We began presenting what we call Below the Line 101. We have already presented an overview of the cost allocation process and are following up on detailed presentations for each individual process. We have presented a detailed presentation on Communications and Program Overhead.

We have also initiated an Administration Open House that is held in Richmond. This began in the fall of 2008. At first the Open Houses were in Richmond only and held on the last Wednesday of the month. Beginning in the July 2009, we started holding the Open House in Sacramento bi-monthly and Richmond bi-monthly. In this Open House, we present topics to educate Program on various Administration issues and processes. There is also time for Programs to ask questions or present problems that they have. Programs have often asked for clarification on the cost allocation process during these Open Houses.

Administration plans on presenting the detailed Below the Line 101 that are being done in the Admin User Group in the Administration Open Houses to broaden the audience that receives this information.

Observation 6: Cost Allocation Process Can Be Improved

DOF Recommendation 6

The DPH should establish and maintain reliable, accurate, and consistent information to be used as the allocation basis.

CDPH Response 6

The CDPH agrees with the recommendation that CDPH should establish and maintain reliable, accurate, and consistent information to be used as the allocation basis for below the line costs. Future Facility Ops Drills will be modified to require authorized positions as part of the staff count. The Budget Section will review information received from programs to verify the accuracy of the authorized position count. However, authorized positions from the Facility Ops Drill, not filled positions, will be used to allocate IT and communications costs. IT and communication services continue even though a position is vacant.

The CDPH agrees with the recommendation that there is no written policy on when or how the rent schedule is updated for square foot usage by center. PSB (Program Support Branch) was utilizing an existing practice by the department to update square footage by center; however, there were no written procedures. A written policy will be created by June 30, 2010 to outline the space allocation to centers.

Observation 7: IT Costs Are Not Fully Split from the Department of Health Care Services

DOF Recommendation 7

The DPH IT system should be fully split from the DHCS. Until the split can be achieved, the DPH needs to improve the method of identifying the correct IT costs that should be charged to each department.

CDPH Response 7

The CDPH disagrees with the recommendation that the IT system should be fully split from DHCS (see below). However, CDPH does agree with the recommendation to improve the method of identifying the correct IT costs that should be charged to each department.

Following the DHS split in July 2007 it was agreed that DHCS would provide continuing IT infrastructure services and support for up to three years. This understanding was formalized in an Interagency Agreement (IAA) under which DHCS provides various ongoing IT services and support activities at a fixed cost to CDPH of \$8.1M per year. This IAA is effective through June 30, 2010. In January 2008 CDPH initiated a study to determine what future direction it should take in establishing its future IT infrastructure, i.e., whether to retain the shared infrastructure with DHCS, build its own independent IT infrastructure in-house, or to acquire IT infrastructure services and support through the State's consolidated data center. However, early in 2008, the creation of the Office of the State Chief Information Officer (OCIO) and the emergence on the scene of the new State CIO Teri Takai, have resulted in a new policy direction favoring IT consolidation, a direction that CDPH strongly supports. Thus, instead of pursuing the option of creating its own IT infrastructure separate and independent from DHCS, CDPH has set about working with DHCS to develop a new rates-based IAA to take effect in FY 2010/11 and beyond where costs are based on industry consistent rates, projected workload metrics, and agreed upon service levels. In addition, it is planned that the IAA provide for expenditure tracking for services provided based on actual workload observed and performance levels achieved. Both the current and the proposed IAA will be jointly managed by the CDPH / DHCS IT Shared Services Committee, a shared governance group that sets policy for shared resource allocation based on both departments' service needs and priorities.

EVALUATION OF RESPONSE

The Department of Finance, Office of State and Audits and Evaluations (Finance) reviewed the California Department of Public Health's (DPH) response to the draft report.

The DPH concurred with Observations 4, 5, and 6. The DPH partially agrees with Observation 2 and disagrees with Observations 3 and 7.

Where the DPH disagrees with reported observations and conditions in its response, the following comments are provided:

Observation 2: The DPH Fiscal Health Report Card Needs Improvement

The DPH misinterpreted our observation; Finance does not suggest that items currently not being graded be deleted from the Report Card. Tracking and reconciling expenditures for each funding source are as important as tracking and reconciling revenues and are essential steps in generating accurate and complete financial reports to achieve transparency and accountability. Therefore, they should be graded.

Observation 3: The EFR and BUDS Are Not Fully Utilized or Coordinated

Finance recognizes the difficulties of monitoring and managing the DPH's diversified programs. However, the following conditions should be resolved:

- Programs heavily rely on manual processes in completing the Expenditure Forecast Report (EFR).
- A consistent process for reconciliation of actual program expenditures to the EFR and expenditure monitoring does not exist.

Observation 7: IT Costs Are Not Fully Split from the Department of Health Care Services

For the long-term, it is ideal for the DPH to establish an Information Technology (IT) infrastructure separate from the Department of Health Care Services (DHCS). However, Finance acknowledges the DPH's efforts to obtain IT infrastructure and expenditure tracking services under the proposed interagency agreement with the DHCS.

For the reasons stated above, Finance's reported observations and conditions remain unchanged in the report.